



**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**

**Audit of the  
Policemen and Firemen  
Retirement System  
of the City of Detroit's  
Travel Policy**

**November 2003**



# City of Detroit

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## MEMORANDUM

**DATE:** February 9, 2005

**TO:** Honorable City Council  
Mayor Kwame M. Kilpatrick

**FROM:** Joseph L. Harris  
Auditor General 

**RE:** Audit of the Policemen and Firemen Retirement System's Travel Issues

**C:** Walter Stampor, Executive Secretary

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Attached for your review is our report on the audit of the Policemen and Firemen Retirement System's (PFRS) travel policy and compliance.

This report contains our audit purpose, scope, objectives and methodology; background; audit findings and recommendations; and the response from the PFRS Board of Trustees.

We appreciate the cooperation and assistance that we received from the employees of the Pension Division.

**Audit of the Policemen and Firemen Retirement System's Travel Issues  
December 2003**

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES AND METHODOLOGY**

### **Audit Purpose**

This report was prepared in response to a request by City Council to audit travel-related issues of the Policemen and Firemen Pension Board (PFRS) and to provide the results of the audit to the City Council.

### **Audit Scope**

The Office of the Auditor General (OAG) performed an assessment of the adequacy of the PFRS's travel policy, including the accounting and reporting procedures for travel expenses and the extent to which travel and travel expenses were in compliance with the policy. We focused our audit on the weaknesses discovered during the assessment, travel-related internal control procedures, and considerations for strengthening the travel policy and improving internal control procedures.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.

### **Audit Objectives**

Our objective was to review issues related to travel by the Trustees and staff of the Policemen and Firemen Retirement System including:

- Determining whether a formal travel policy exists.
- Reviewing the travel policy to determine whether it is reasonable and adequate.
- Determining whether travel is in compliance with the policy.
- Reviewing travel-related internal controls.
- Reviewing and testing the accounting for travel expenses.

### **Audit Methodology**

To accomplish the audit objectives, our audit work included the following:

- A review of prior audit reports, City ordinances and State statutes, and other pertinent information relating to travel by PFRS Trustees and staff.
- Interviews with appropriate Pension Division and City personnel.
- A review of selected travel expense records.
- A review of the accounting procedures and records related to travel expenses.

## **BACKGROUND INFORMATION**

On February 23, 2003, *The Detroit News* published an article that questioned the level of travel expenditures and the amount of time the Trustees of the General Retirement System (GRS) spent traveling. During a City Council discussion on February 24, 2003, the Auditor General was requested to conduct an audit of the two pension boards including the examination of travel records. A report on GRS travel-related issues will be published separately.

The Policemen and Firemen Retirement System (PFRS) is governed by an eleven-member Board of Trustees, which administers the pension and benefit plan for members of the Police and Fire Departments. The Board consists of six elected trustees and five ex-officio trustees. The Pension Division of the Finance Department is responsible for carrying out the policies and directives of the Boards of Trustees of both the GRS and the PFRS.

PFRS Trustees and staff members travel to informational and educational seminars, to conduct due diligence examinations, to meet with investment advisors, to participate in legal proceedings, and to conduct other pension fund business. During the audit period of July 1, 1999 through June 30, 2003, the PFRS expended an average of \$102,819 annually on travel.

## **FINDINGS AND RECOMMENDATIONS**

Our audit of PFRS travel-related issues revealed that PFRS does have a formal travel policy, which was approved by the PFRS Board of Trustees on April 1, 1999. The PFRS travel policy provides general guidelines for the type and amounts of expenses that will be reimbursed. The travel policy, however, does not address several topics that could improve accountability and internal controls.

### **1. Assign Policy Compliance Monitoring to Pension Division Staff**

Although there is no formal compliance monitoring process, our review of 54 trips taken by Trustees and staff during the period July 1, 1999 through June 30, 2003 revealed that the reimbursement of travel expense is generally in compliance with the PFRS travel policy. There were two minor instances where reimbursement appeared not to comply with the policy. Staff was able to provide reasonable verbal explanations of the circumstances involved, but the explanations were not documented.

The PFRS has not established a compliance monitoring system. Compliance with the travel expense reimbursement policy during the audit period was dependent on the diligence and oversight of the Assistant Secretary.

The potential for abuse of the travel policy exists although no adverse effect was noted during the audit period.

Effective internal controls provide for the monitoring of policy compliance. Monitoring is necessary if policies are to be meaningful and effective. Good internal control practices require that the monitoring of travel policy compliance be done by an independent person rather than by someone who is involved in the authorization or reimbursement of travel expenses, or who travels on behalf of the PFRS.

We recommend that responsibility for travel policy compliance monitoring be assigned to a Pension Division staff member who neither travels on behalf of the PFRS or is involved in the authorization or reimbursement of travel expenses.

### **2. Expand the Travel Policy to Include Several Important Travel-related Issues**

The PFRS travel policy provides general guidelines for the type and amount of expenses that will be reimbursed. It does not, however, address many topics commonly contained in the travel policies of other public bodies including the travel policy of the City of Detroit. A comparison of the PFRS and City of Detroit travel policies is contained in Attachment B. Some of the items that are not addressed in the PFRS travel policy include:

- A requirement that travelers submit written, signed expense reports certifying travel expenses within a certain time period.
- A requirement that the traveler document the purpose of the trip, the benefit derived by the pension fund, or the results of the trip.
- The assignment of responsibility for administering and monitoring travel policy compliance, processing and accounting for travel expense.
- Any limitations on expenses, such as the sharing of rental vehicles and limousines, or the pro-ration of per diem expenses for partial travel days.
- A deadline for reimbursing the pension system for unused travel advances.

The result of the policy's shortcomings is that each traveler may establish his or her own interpretation of the travel policy. This practice can result in inconsistencies and could result in inappropriate or excess travel and expenses. Additionally:

- Control over expenses is weakened when signed, written expense reports or reconciliation are not required.
- There is no formal process for holding Trustees and staff accountable for advances received or monies spent.
- The lack of documentation concerning the purpose, benefits or results of travel opens the Pension Board and Trustees to criticism that Trustees are not fulfilling their fiduciary responsibility and that pension funds are being expended without a commensurate benefit to the pension fund or to its members.
- Non-compliance with the travel policy may occur and funds may not be accounted for appropriately.

Good fiduciary practices require travel policies to contain sufficient detail to insure that expenditures for travel are consistent, reasonable and necessary for conducting the fund's business.

We recommend that the PFRS revise and expand its travel policy to include:

- Significant items that will ensure that travel expenses are reasonable and necessary.
- A requirement that travelers provide signed, written expense reports or advance reconciliations in a timely manner, in addition to submitting receipts as specified in the existing travel policy.
- A requirement that the purpose, benefits or results of travel be documented either in Board minutes or in other travel records.
- A clear definition of staff and Trustee responsibilities as they pertain to travel-related items.

### **3. Incorporate Guidelines for the Acceptance of Travel Paid by Third Parties into the Travel Policy**

At times, vendors or other third parties sponsor travel for Trustees and staff. It is the stated practice of the PFRS to pay the airfare of the Trustee or staff person while the vendor or third party pays all other travel expenses.

Entities, that either have or seek to have a relationship with the PFRS as a vendor, advisor or as the recipient of investment funds, sponsor travel to educate or inform the Trustees and staff, and to enhance or establish a relationship. The travel may also be part of the due diligence process necessary to make an investment decision.

The acceptance of third-party paid-for travel can create a real or perceived conflict of interest. The lack of written guidelines can result in each Trustee or staff member establishing his or her own criteria for what can reasonably be accepted.

Good fiduciary practices indicate that the reasons for and benefit of acceptance of third-party paid travel by either Trustees or staff should be documented in the Board minutes in order to eliminate any suggestion of impropriety. After travel is completed, Trustees and staff should document which items were paid for by the sponsor and their estimated value, and which items were paid for by the PFRS.

We recommend that guidelines for the acceptance of travel paid for by third parties be incorporated into the travel policy.

#### **4. Establish Written Procedures to Improve Accountability and Internal Controls**

The PFRS does not have any written procedures related to travel, travel advances, reimbursement of travel expenses or accounting for travel expenses to be used in implementing the travel policy. The Trustees and staff must rely on informal practices and undocumented advice.

The lack of adequate written procedures may result in inconsistent practices, inadequate documentation of expenses, errors in processing travel expenses, and a lack of control over the expenditure of pension monies. Accountability is weakened without documented procedures.

Generally accepted accounting and management practices require that there be written procedures to establish standards and define accountability. Specific examples of the issues that should be addressed by the procedures but that do not exist for the PFRS are:

- A requirement that Trustees and staff submit signed, written expense reports certifying travel expenses within a defined period of time after completion of the travel.
- Limitation of expenses, such as rental vehicles, when two or more people are traveling together.
- Pro-ration of per diem expenses for partial travel days.
- A requirement that travel advances be accounted for or returned within a specified period.

We recommend that the PFRS establish written procedures sufficient to insure that there are adequate internal controls to provide reasonable assurance that travel complies with the policy, and that Trustees and staff are held accountable for travel expenses.

#### **5. Implement Changes to the Accounting Process for Travel to Improve Accountability and Internal Controls**

We noted the following weaknesses in the accounting process for PFRS travel advances and expenses:

- There is no formal accounting for travel advances. Travel advances are immediately expensed to the Trustee Expense Account, rather than being set up as advances or receivables on the PFRS general ledger. During the audit period, the Assistant Secretary maintained and periodically reviewed a manual system to determine outstanding advances.

- There is no documented process for collecting the unused portion of travel advances.
- Amounts due to or due from the traveler are sometimes netted against unrelated trips.
- The travel expense reimbursement procedures are not documented and are dependent on the diligence and oversight of the Assistant Secretary.
- The PFRS does not have a budget for travel expenses. No formal limit is set on the amount that may be spent on travel. Consequently, there is no measurement of the reasonableness of the expenditures. Travel expense is not reported to the PFRS Board of Trustees or to the membership.
- The PFRS accounting staff is not involved in processing or verifying expense reimbursement.

The current accounting practices of the PFRS may result in:

- Inadequate safeguarding of travel advances (assets) of the PFRS system. Advances may not be fully accounted for or reconciled.
- Unused funds may, inadvertently, not be returned to the pension fund.
- Amounts due to or due from the traveler could be netted against unrelated trips more than once.
- The lack of written accounting procedures means that travel-related items may not be treated in a uniform manner and that processing of travel-related items are dependent on the knowledge and memories of individual staff members and Trustees.
- No measurement of the reasonableness of travel expenditures is possible and there is no limitation on the total amount that may be spent on travel.
- The lack of the separation of duties and responsibilities, which permits individuals who travel on behalf of the PFRS to control the travel advance/reimbursement process.

Good accounting controls require that advances be treated as receivables until the use of the funds is documented and reconciled, at which time they should be expensed. Good internal controls require that all monies owing to the pension fund be monitored and collected in a timely manner. IRS regulations require that unused travel advances be reimbursed within a reasonable period of time or reported on a W-2 or 1099 form issued to the person. If an advance is not documented and reconciled, the advance should be shown as monies paid to the person receiving the advance. Each advance should be accounted for independently of other advances.

Good fiscal and accounting practices require that a budget be established for expenses. Also, documentation for expenses incurred by fiduciaries should be accessible and complete, and should be fully disclosed to the beneficiaries of the pension fund.

We recommend that each travel advance be set up as a receivable in a ledger until a travel expense report for the trip is submitted and reconciled. We further recommend that the PFRS require that reimbursement of unused travel advances be made within a

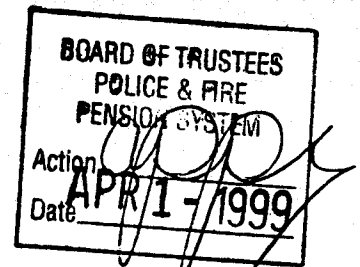
reasonable period of time, not to exceed the IRS guidelines, after the travel is completed. Remedies for collecting travel reimbursements when they are not made within a reasonable period of time, such as deducting the unreconciled advance from future advance requests, should also be established.

We also recommend that the PFRS establish an annual budget for travel expenditures and that the total amount expended for travel be included in the financial information periodically reported to the Board. Information should be accumulated in sufficient detail and in a centralized location to permit meaningful reporting, analyzing and monitoring of travel expenses.

April 1, 1999

ATTACHMENT A

BOARD OF TRUSTEES-TRAVEL POLICY AND REGULATIONS



Reimbursement for travel expenses of members of the Board of Trustees and Staff to attend conferences and seminars or conduct Board business approved by the Board shall be made in accordance with the following guidelines.

TRAVEL EXPENSES

Registration - Conference fees/actual registration fees charged by the conference shall be paid by the fund.

Travel Expenses - Air Fare - Allowance for air fare shall be up to the regular "coach" rate. First class rates will be allowed only where no other service is available or urgency exists. Tickets/receipts shall be submitted to the Executive Secretary upon completion of travel.

Out of State (Driving) - Travel by means other than air is allowable, but expense reimbursements will be limited to regular "coach" air fare. Reimbursements will be allowed for hotel accommodations for the date preceding a designated conference and the date following a designated conference.

Lodging - Allowance for lodging shall be at the rate charged at the hotel/facility where the conference is being held or such hotel/facility considered part of the conference hotel group. Lodging receipts shall be submitted to the Executive Secretary upon completion of travel.

Meals - Allowance for meal reimbursement shall be as follows:

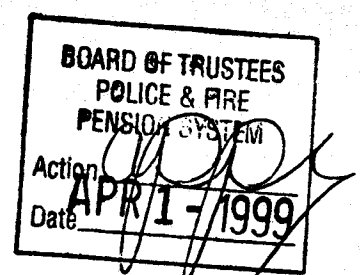
	In State	Out of State	Boston, California, Chicago, Hawaii, New York & Washington
Breakfast	\$ 7.00	\$ 7.00	\$10.00
Lunch	\$10.00	\$10.00	\$12.00
Dinner	\$23.00	\$23.00	\$28.00
	\$40.00	\$40.00	\$50.00

Amounts will be automatically increase in accordance with directives issued by the City of Detroit Budget Department.

# ATTACHMENT A

April 1, 1999

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Meals - Allowance for meal reimbursement shall be as follows:

	In State	Out of State	Boston, California, Chicago, Hawaii, New York & Washington
Breakfast	\$ 7.00	\$ 7.00	\$10.00
Lunch	\$10.00	\$10.00	\$12.00
Dinner	\$23.00	\$23.00	\$28.00
	\$40.00	\$40.00	\$50.00

Amounts will be automatically increase in accordance with directives issued by the City of Detroit Budget Department.

**A COMPARISON OF ITEMS INCLUDED IN THE PFRS TRAVEL POLICY  
AND THE CITY OF DETROIT TRAVEL POLICY**

<b>Items included in:</b>	<b>PFRS Policy</b>	<b>City of Detroit Policy</b>
Budget approval		X
Travel authorization	X	X
Cost effectiveness consideration		X
Responsibilities of traveler		X
Use of travel agent		X
Advance travel request form		X
Receipts for all items except meals required		X
Registration fees		X
Transportation		X
Air fare-coach	X	X
Pre and post meeting hotel expenses	X	X
Weekend extensions		X
Use of city vehicle		X
Use of private vehicle	X	X
Ground transportation	X	X
Car rental		X
Per diem allowance for meals and incidentals	X	X
Pro-ration of per diem amounts		X
Lodging	X	X
Misc. expense	X	X
Travel advances		X
Reconciliation of expenses		X
Unused airline tickets		X
Certification of expenses		X
Deadline for submission of expenses		X
Forms required: 1. Reservation request 2. Reimbursement 3. Mileage 4. Travel pre-approval		X



POLICEMEN AND FIREMEN  
RETIREMENT SYSTEM  
OF THE  
CITY OF DETROIT  
February 7, 2005

## ATTACHMENT C

2 WOODWARD AVE. STE. 908  
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Joseph L. Harris, Auditor General  
Office of the Auditor General  
2 Woodward Avenue, Room 208  
Detroit, Michigan 48226

Dear Mr. Harris:

The following presents the response on the Audit of the Policemen and Firemen Retirement System's Travel Issues:

1. The Board agrees on point one and has implemented new procedures for monitoring travel expenses. A staff member of the accounting section will now be responsible for processing the travel requests. The final review of the expenditures will be conducted by the Assistant Administrative Supervisor.
2. As stated above, a staff member from accounting will be given the duties of obtaining all the necessary reports to document all expenses for trustee travel. Registration for the conferences will be handled by the accountant in charge of travel. Travel expense advances are based on conference rates for the hotels and by documented air fare invoices submitted before the travel dates. Upon completion, a final review will be performed by the Assistant Administrative Supervisor for compliance to the Board's travel policy. Each conference attended has the conference brochure included that covers the topics to be covered. As part of the trustees' fiduciary duties involves the education and exploring methods of protecting the soundness of the Retirement Plan. Usually, the knowledge gained at these conferences is shared with the other trustees.

3. Copies of the City's Travel Policy have been distributed to the trustees for their review and possible implantation.

4. Same as 3.

5. Same as 3.

Sincerely,

*Walter Stampor*

Walter Stampor  
Executive Secretary

*Sean K. Werdlow, Secretary; Cynthia A. Thomas, Administrative Secretary  
Medical Director: Reginald E. O'Neal, D.O.; Ronald Zajac, Legal Counsel  
Walter Stampor, Executive Secretary*

### BOARD OF TRUSTEES

*Ex-Officio Members: Kwame M. Kilpatrick, Mayor; Sharon McPhail, Council Designate  
Clarence Williams, Treasurer; Ella Bully-Cummings, Chief of Police  
Tyrone C. Scott, Fire Commissioner  
Elected Members: William L. Fairweather, Marty Bandemer,  
Laura Isom; Frank English; George Orzech; Paul Stewart*